



CANADA

International Comparison of Insurance Taxation

October 2007



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Canada– General Insurance

1 Definition

Definition of property and casualty insurance company

Accounting

A company to which insurance legislation applies.

Taxation

A company that carries on an insurance business, but must not carry on any life insurance business.

2 Commercial accounts/ Tax and Regulatory returns

Basis for the company's commercial accounts

Accounting

Generally accepted accounting principles (GAAP) as set by Canadian Institute of Chartered Accountants (CICA).

Taxation

Based on commercial accounts.

Regulatory return

A separate return as issued by the Office of the Superintendent of Financial Institutions (OSFI) (federal companies) and provincial insurance commissions (provincial companies).

N/A.

Tax return

N/A.

A separate return is required annually for each taxpayer; some provinces require their own returns.

3 Technical reserves/ Equalisation reserves

Unearned premium reserves (UPR)

Accounting

Calculated by time or risk apportionment or risk curve such as mortgage insurance or warranty insurance.

Taxation

Beginning in 2000, generally same as accounting and calculated net of reinsurance.

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Canada – General Insurance (continued)

Unpaid claims reported	Calculated on case-by-case basis. Discounting in accordance with the standards of the Canadian Institute of Actuaries (CIA) is required by OSFI and accepted under Canadian GAAP.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax, net of reinsurance.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method. Unpaid claims plus IBNR reported on by actuary. Discounting is required by OSFI.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax and calculated net of reinsurance.
Unexpired risks	Calculation on a statistical basis. Includes provision for premium deficiencies.	N/A.
General contingency/solvency reserves	N/A.	N/A.
Equalisation/catastrophe reserves	N/A.	N/A.
4 Expenses/Refunds	Accounting	Taxation
Acquisition expenses	Capitalised and amortised in relation to associated premium revenue, subject to overall recoverability test.	Beginning in 2000, expenses incurred on account of the acquisition of an insurance policy are capitalised and amortised. Accounting write-downs of the capitalised costs from the overall recoverability test are not deductible for tax.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Case-by-case, averaging or with reference to IBNR.	95% of the lesser of the statutory reserve and the 'claim liability' as defined for tax.
Experience-rated refunds	Credited when earned or accrued, depending on volatility of line of business (recorded when determinable).	Taxable as earned; deductible if paid in year or following year.



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Canada – General Insurance (continued)

5 Investments

Gains and losses on investments

Accounting

Starting in 2007, realised gains and losses are included in P&L. Unrealised gains/losses recognised in P/L or other comprehensive income (equity section) depending on classification of asset.

Taxation

Starting in 2007, gains or losses on debt securities could be included in income when realised on an amortised basis or mark-to-market on an unrealised basis, depending on the accounting classification. The Finance Department has issued a discussion paper on the tax treatment of debt securities acquired before 2007, which is different from the tax treatment under the current legislation. Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate.

Investment reserves

Loss in value that is other than temporary (on investment-by-investment basis) is recognised in P/L.

For debt securities only, 90% of accounting reserve.

Investment income

Included in P&L.

All interest and foreign dividends are fully included. Domestic dividends fully deductible, provided paid on a share that is not defined to be a 'debt substitute' and that is issued by a taxable Canadian corporation.

6 Reinsurance

Reinsurance premiums and claims

Accounting

Balance sheet reinsurance balances and premiums ceded are presented on a gross basis. Claims recoveries (on an earned basis) are netted in P&L account against claims expenses.

Taxation

Tax-deductible or includable respectively, whether licensed or unlicensed.



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Canada – General Insurance *(continued)*

6 Reinsurance

Reinsurance premiums and claims

Accounting

Balance sheet reinsurance balances and premiums ceded are presented on a gross basis. Claims recoveries (on an earned basis) are netted in P&L account against claims expenses.

Taxation

Tax-deductible or includable respectively, whether licensed or unlicensed.

7 Mutual companies

Mutual companies (all profits returned to members)

Accounting

No special treatment.

Taxation

No special rules, taxed on same basis as stock company.



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Canada – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Non-capital losses

Generally three years back and seven years forward for losses incurred prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can effectively be extended indefinitely by flexible reserve claims.

Capital losses

Generally three years back and forward unlimited.

Foreign branch income

Foreign income included, subject to foreign tax credit.

Domestic branch income

Investment income calculated under tax formula subject to minimum investment revenue requirement. Branch tax ranging from 25% to 5% upon cessation of Canadian business or election depending on existence of tax treaty.

Corporate tax rate

Commencing January 2006, combined federal and provincial rate ranges from approximately 32.02% to 38.37% (with several additional federal and provincial rate changes occurring between 2006 and 2010). Canadian-controlled private corporations have lower rate on the first \$300,000 of income (will increase to \$400,000 effective 1 January 2007). Minimum tax applies at a rate of 4% on accounting income, attributable to the Province of Ontario.



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Canada – Other Tax Features *(continued)*

9 Other tax features

	Taxation
Premium taxes	Provincial premium taxes of 2% to 4.4%. Federal excise tax of 10% on certain primary insurance placed directly with unlicensed companies. Provincial sales tax applies at rates varying from 5% to 15% in three of Canada's 13 provinces and territories.
Capital taxes	The federal capital tax on large corporations was eliminated, effective 1 January 2006. Insurers are subject to provincial capital taxes ranging from 0.26% to 0.52%, levied by the provinces of Manitoba and Nova Scotia (Nova Scotia will expire on 1 July 2012).
Captive insurance companies	Controlling domestic taxpayer taxable immediately on captive's income from insuring Canadian risks and, under specified circumstances, from insuring non-Canadian risks.



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Canada – Life Insurance

1 Definition Definition of life assurance companies	Accounting A company that carries on life insurance business and to which specific regulation applies.	Taxation A company that carries on any life insurance business.
2 Commercial accounts/ Tax and Regulatory returns Basis for the company's commercial accounts	Accounting GAAP as set by CICA.	Taxation Based on commercial accounts.
Regulatory return	A separate return as issued by the OSFI (federal companies) and provincial insurance commissions (provincial companies).	N/A.
Tax return	N/A.	A separate return is required annually for each taxpayer; some provinces require their own returns.
3 General approach to calculation of income Allocation of income between shareholders and policyholders	Accounting Separate accounting for policyholder and shareholder profits.	Taxation Only significant for specific calculations involving participating policyholders.



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Canada – Life Insurance (continued)

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Dividends and interest are taken to P&L. Premium/discount and realised gains/losses on fixed income are deferred and amortised over remaining period to maturity. Starting in 2007, realised gains and losses are included in P&L. Unrealised gains/losses recognised in P/L or other comprehensive income (equity section), depending on classification of asset.

Taxation

For Canadian multinational life insurers or nonresident life insurers carrying on business in Canada, investment income and gains and losses are determined using complex rules.

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

Canadian Asset Liability Method in accordance with the CIA standards is required. Actual liability equals the book value of the assets required to meet all future liability cash flow.

Taxation

For policies issued after 1995, the tax reserves for ordinary life insurance policies will be the lesser of the statutory liability and a liability calculated in accordance with accepted actuarial practice. Prior to 2007, pre-1996 policy reserves are based on one and one-half year preliminary term method, with specified assumptions, and not less than cash surrender. Finance Department has issued a discussion paper proposing that starting in 2007, pre-1996 policy reserves be based on the reserves reported in the financial statements.

Acquisition expenses

Expensed immediately.

Generally deductible immediately.

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Canada – Life Insurance (continued)

Gains and losses on investments	Refer to calculation of investment income and capital gains above.	Portfolio shareholdings are fully included and marked-to-market on an annual basis. Generally, one-half inclusion on real estate. Starting in 2007, gains or losses on debt securities could be included in income when realised on an amortised basis or marked-to-market on an unrealised basis depending on the accounting classification. Finance Department has issued a discussion paper on the tax treatment of debt securities acquired before 2007, which is different from the tax treatment under the current legislation.
Reserves against market losses on investments	Loss in value that is other than temporary (on investment-by-investment basis) is recognised in P/L.	Generally, for debt securities 90% of accounting reserve.
Policyholder dividends and bonuses	Included as an expense in P&L.	Policy dividends accrued to the end of the year. Deductible to extent of income from participating businesses with a cumulative calculation.
Other special deductions	None.	Policy loans deductible when made and included in income when repaid.
6 Reinsurance Reinsurance premiums and claims	Accounting Netted from related gross balances (both B/L and P/L).	Taxation Tax-deductible or includable respectively, whether licensed or unlicensed.
7 Mutual companies/Stock companies Mutual companies (all profits returned to members)	Accounting No special treatment.	Taxation No special rules, taxed on same basis as stock company.



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Canada – Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Non-capital losses

Generally three years back and seven years forward for losses prior to taxation years ended before 23 March 2004. The carry-forward period is extended to 10 years for losses arising in taxation years ending after 22 March 2004 and is further extended to 20 years for those arising after 2005. Carry-forward can effectively be unlimited since actuarial and IBNR reserves are optional.

Capital losses

Generally three years back and forward unlimited.

Foreign branch income

Income from foreign insurance business specifically excluded.

Domestic branch income

Investment income is determined using complex rules subject to minimum revenue requirement. Branch tax ranging from 25% to 5% upon cessation or election, depending on existence of tax treaty.

Corporate tax rate

Commencing January 2006, combined federal and provincial rate ranges from approximately 32.02% to 38.37% (with several additional federal and provincial rate changes occurring between 2006 and 2010). Canadian-controlled private corporations have lower rate on the first \$300,000 of income (will increase to \$400,00 effective 1 January 2007). Minimum tax applies at a rate of 4% on accounting income attributable to the Province of Ontario.

9 Policyholder taxation

Deductibility of premiums

Taxation

None (except for registered retirement savings plans and policies required as collateral for debt if interest thereon is deductible).



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Canada – Other Tax Features (continued)

Interest build-up	Not taxable except for savings-oriented policies where interest element accrues annually to policyholder. In addition, a 'proxy' tax of 15% of the investment income accumulating in certain policy reserves of the life company must be paid by the life insurer.
During lifetime	Excess of proceeds (including policy dividend and loans) over cost basis is taxable for all.
Proceeds on death	Generally tax-free except where the policy is essentially a savings vehicle, as defined.
10 Other tax features	Taxation
Premium taxes	Provincial premium taxes of 2% to 4%. Federal excise tax of 10% on insurance placed directly with unlicensed insurers.
Capital taxes	The federal capital tax on large corporations was eliminated, effective 1 January 2006. There is a separate federal capital tax imposed on life insurers. Prior to 1 July 2006 the rate was 1% on taxable capital between \$200 million and \$300 million and 1.25% on taxable capital in excess of \$300 million. After 30 June 2006 the rate has changed to 1.25% of taxable capital in excess of \$1 billion. The provinces of Ontario and Quebec have a similar capital tax on capital employed in Ontario and Quebec, ranging from 0.3125% to 1.25%, depending on taxable capital. Insurers are also subject to capital taxes, ranging from 0.26% to 0.52%, levied by the provinces of Manitoba and Nova Scotia (Nova Scotia will expire on 1 July 2012).
Captive insurance companies	Controlling domestic taxpayer taxable immediately on captive's income from insuring Canadian risks and, under specified circumstances, from insuring non-Canadian risks.



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